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Central Intelligence Agency



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DIRECTORATE OF INTELLIGENCE

28 February 1984

MEXICO UPDATE*

Key Developments

Intra-party debate continues over the best way to improve the image of the ruling Institutional Revolutionary Party (PRI) in preparation for the 1985 legislative elections. Even though PRI candidates won most state and local elections last year, party leaders are trying to manage the fallout from falling standards of living caused by Mexico's deep recession.

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Political and personal rivalries among PRI powerbrokers, particularly between party president Adolfo Lugo and the powerful Minister of Interior Manuel Bartlett, are complicating the task even though the need for change is widely recognized. Because political decisionmaking in Mexico runs from top to bottom, President de la Madrid will ultimately decide what course to follow. Changes in the composition of the PRI's National Executive Council, which is

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* This aperiodic review, covering in this issue developments in Mexico from late December to late February, was prepared by the Mexico Branch, Middle America-Caribbean Division, Office of African and Latin American Analysis. Information available as of 24 February 1984 was used in preparation of this report. Comments and questions are welcome and can be addressed to

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Chief, Mexico Branch

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scheduled to meet in an extraordinary session in early March, could cast light on the President's thinking. [REDACTED]

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Review of Other Events

Political Issues

Labor

The moderate increase in minimum wages announced in late December underscores President de la Madrid's commitment to austerity. Minimum wages were boosted an average of 30 percent on 1 January, less than the 40-percent increase in prices the government is projecting this year. As a result, labor will suffer a decline in real wages less than the 30 percent loss experienced in 1983, but enough to set the base for cutting inflation sharply in 1984. The modest hike, which was dictated by the President after politically-necessary consultations with business and labor, will serve as the baseline for union settlements in industry. Press and embassy reports indicate the government will consider another increase in June, but, because de la Madrid views keeping a lid on wages as crucial to fighting inflation, any adjustment is likely to be small. [REDACTED]

Union leaders are not happy with the settlement, but they realize that substantially larger increases were not possible, [REDACTED] Labor Chief Fidel Velasquez's willingness to acquiesce to the President's demands and his ability to retain rank and file allegiance suggest how firmly labor remains in the ruling party's camp and reflect a continuing emphasis on job preservation. Future labor support, however, will depend in part on improved nonwage benefits. We expect, for instance, that labor will increase pressure for tighter price controls on consumer items. [REDACTED]

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In the past two months, the government has moved to keep leftists out of labor leadership positions; this is in line with its earlier efforts to clamp down on independent unions and increase the ability of progovernment unionists to maintain rank and file discipline. According to press reports, Mexico City intervened in several union elections in December and January and purged leftist elements from the newly-created bank workers unions late last month. Allegations that surfaced early in February that the Communist-dominated Nuclear Workers Union is

helping to pass funds to Salvadoran insurgents may reflect government efforts to discredit leftist unions. [REDACTED]

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Moves Against Corruption

The President carefully selected the targets of his anti-corruption campaign as he sought to increase confidence in the ruling party-government complex. [REDACTED]

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[REDACTED] he did order the arrest of the former police chief of Mexico City, Arturo Durazo. Durazo, now abroad, is charged with tax evasion and illegal use of government land. He was a close associate of former president Lopez Portillo and has long been a target of opposition party criticism. [REDACTED]

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In January, the President took a step toward institutionalizing his anti-corruption campaign by requiring contracts for all public sector firms to be put up for bid and the work to be performed by the contracting agent. This would end the sale of government contracts to third parties. We believe the measure was aimed primarily at the oil workers union, which had been allowed under current labor agreements with Pemex to sell up to 50 percent of the contracts it received. The union probably agreed to comply with the new regulations, perhaps in exchange for an implicit administration promise to stay out of internal union affairs and not press corruption charges against union leadership. Press reports speculate the government will save \$1 billion this year as a result of the rule change. [REDACTED]

Opposition Party Activity

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During January and February, as a result of electoral reverses and harsh government tactics, opposition party leaders picked up their criticism of the central government. In the western state of Sinaloa, for example, the center right National Action Party announced plans to establish a parallel city government in Mazatlan to draw attention to alleged PRI electoral fraud. In early February, the party's national convention called for nationwide action, including hunger strikes, peaceful protest marches and occupations, to protest PRI abuses of power. For their part, leftist leaders spent much of their time denying allegations that they operated under foreign influence. This defensiveness was apparently prompted by concerns that the government would expand its crackdown on leftist groups. [REDACTED]

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Foreign Policy

Although the architects of Mexican foreign policy continue to concentrate on Central America, there are signs that the administration is broadening its horizons. After following the tradition of staying in Mexico for the first year of his term, de la Madrid now plans to make a 15 day trip to other Latin American countries. Rather than accept longstanding invitations to travel to Cuba and Nicaragua, the President will visit Panama, Colombia, Venezuela, Brazil and Argentina. We believe the meetings will include discussions of Central America and trade. Foreign Minister Sepulveda is also scheduled to visit France and West Germany, in part to promote the Contadora Group's peace efforts in Central America. [REDACTED]

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Economic Issues

Measures to Aid the Private Sector

Mexico City has recently introduced new exchange, tax, and credit policies to support the recovery of domestic industry and prod firms to export. Commerce Secretary Hernandez eliminated a sore point when he announced on 31 January that controlled rate dollars would now be available for all imports. While exporters must still convert earnings from foreign sales at the controlled exchange rate, the government liberalized other regulations covering earnings. For example, exporters can now use 100 percent of receipts to pay overdue supplier debt, and they have 75 days, compared with 30 days under the old regulations, to use the funds before turning foreign currency earnings over to Mexican banking authorities. Mexico City hopes the extension will be used to provide better payment terms to foreign buyers. [REDACTED]

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The government announced tax policies early in January to stimulate new investment by domestic firms hit hard by the sharp reduction in domestic demand. Among the more important are liberalized depreciation rules that allow any industry to deduct from 1984 taxes 75 percent of any investment this year, and expanded opportunities to write off losses. Additionally, the new policies increase taxes on corporate dividends, in part to discourage payouts and to prod firms to reinvest profits. We see these measures as an effort to revitalize the de la Madrid administration's programs to promote exports and improve relations with the private sector. [REDACTED]

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Financial Developments

[REDACTED]

After an 18-month hiatus, Mexican businesses are slowly regaining access to trade credits that are essential to economic recovery. According to press reporting, the International Finance Corporation--a World Bank entity that lends to the private sector--and two US banks recently established a \$100 million loan facility to finance capital goods imports. The Mexican foreign trade bank and a large state-owned commercial bank will administer the funds. [REDACTED]

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[REDACTED] Foreign creditors still appear unwilling to lend directly to private enterprises and instead are turning to the Mexican Government to act as an intermediary. Trade financing is essential to boost imports from \$9 billion in 1983 to the administration's goal of \$14 billion in 1984 and to increase non-oil exports. [REDACTED]

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Security Issues

In late January, Mexico sent reinforcements--including several hundred troops with helicopters and other support equipment--to at least two forward positions opposite Guatemalan units conducting heavy counterinsurgency operations. [REDACTED]

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[REDACTED] The troop movement probably was intended to show the flag and to remind the Guatemalan Government and leftist guerrillas that Mexico does not condone trespassing. [REDACTED]

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Despite the tightness of the federal budget, the de la Madrid administration increased the funding and manpower allotment of the federal security force in late December. [REDACTED]

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believe the moves reflect the government's concern that another fall in the standard of living in 1984 will prompt more aggressive activity by dissidents. [REDACTED]

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After the last of the 1983 municipal elections was held in December, the President took strong action against leftist elements in Juchitan, Oaxaca. According to embassy accounts, government security forces were used to oust members of a leftist coalition who had refused to vacate city offices after Mexico City installed a provisional administration in August. The press reports that several of the leaders of the leftists have gone into hiding. We believe the President's actions underscore his willingness to use force and his determination to limit opposition protests. [REDACTED]

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